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Universal Service Funds: Increasing Phone Service

Carol Matthey
Deputy Bureau Chief
Common Carrier Bureau
FCC



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Objectives of Universal Service

The goal of Universal Service is “... to make available, so far as possible, to all the people... a rapid, efficient, nationwide and world-wide wire and radio communications service with adequate facilities at reasonable charges.”

(The Communications Act of 1934)



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Traditional Approach

- Under the Communications Act of 1934
 - Monopoly carriers
 - Implicit subsidies
 - From interstate services to intrastate services
 - From business customers to residential customers
 - From urban areas to rural areas
 - Subsidies for low income families



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Telecommunications Act of 1996

Expanded the Scope of Universal Service

- FCC and states directed to establish “predictable and sufficient” mechanisms to ensure availability and delivery of affordable and “reasonably comparable” telecommunications services to all, including low-income customers, those in rural, insular and high cost areas, as well as to eligible schools, libraries and rural health care providers
- Stimulate provision of nationwide access to advanced telecommunications and information services
- All telecommunications providers must make “equitable and nondiscriminatory contributions”



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Universal Service Principles

Telecommunications Act of 1996

- Quality Service at Affordable Rates
- Access to Advanced Services
- Access in Rural and High Cost Areas
- Equitable and Nondiscriminatory Contributions
- Specific and Predictable Support Mechanisms
- Access to Advanced Telecommunications Services for Schools, Health Care and Libraries
- Other Principles that Joint Board and FCC Deem Necessary



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FCC Implementation of 1996 Act

- New rules adopted in several decisions since 1997:
 - Reform of high-cost support
 - Explicit subsidies
 - Competitively neutral support
 - Continued support for low-income families
 - Recent expansion of support for low-income families on Tribal Lands
 - New support for schools, libraries, and health-care facilities



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Universal Service Programs

- Who Receives?
 - Regulatory agencies designate carriers eligible for support based on specific criteria
 - Specific, predictable and consistent mechanisms/models used to calculate support for each program
- Who Pays? (contributors)
 - Mechanisms generally ensure “*equitable and nondiscriminatory contributions*” from all telecommunications carriers
 - Contributions calculated as a percentage of *end-user retail revenues*



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Carrier Eligibility

- As of January 1, 1998, only Carriers designated by their State Public Utilities Commission as Eligible Telecommunications Carriers can receive Universal Service Funding, and then only in the areas where they were a designated ETC.



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Carrier Eligibility (cont.)

- Eligibility Requirements:
 - Must offer all of the Universal Services throughout its serving area either through its own facilities or a combination of its own facilities and resale of another carrier's services.
 - “Pure” resale not eligible for funding
 - Advertise the availability of such services and their charges using media of general distribution.



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Supported Services

High-Cost & Low Income

- Voice-Grade access to the public switched network
- Touch-Tone service
- Single-party service
- Operator, directory, and emergency services
- Access to long distance service

Schools & Libraries (“E-Rate”)

- Telecommunications services
- Internet Access
- Internal Connections



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Funding Mechanism

- Funding:
 - All interstate telecom carriers
 - Contributions made on basis of end-user revenue
- Independent entity administers funds
 - Universal Service Administrative Corporation
 - Billing, collections & disbursements
 - Reporting



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Funding (cont.)

- Carriers submit revenue data semi-annually
- FCC determines demand for all Universal Service programs & derives contribution factor
 - $\text{contribution factor} = \text{estimated demand} \div \text{industry revenue}$
- USAC bills carriers & distributes support

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